

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Statutory Review of the	:	
System for Regulating	:	Docket No. RM2017-3
Rates and Classes for	:	
Market Dominant Products	:	

PETITION OF THE AMERICAN MAIL ALLIANCE  
FOR INITIATION OF A PUBLIC INQUIRY AND FOR  
SUSPENSION OF STATUTORY REVIEW

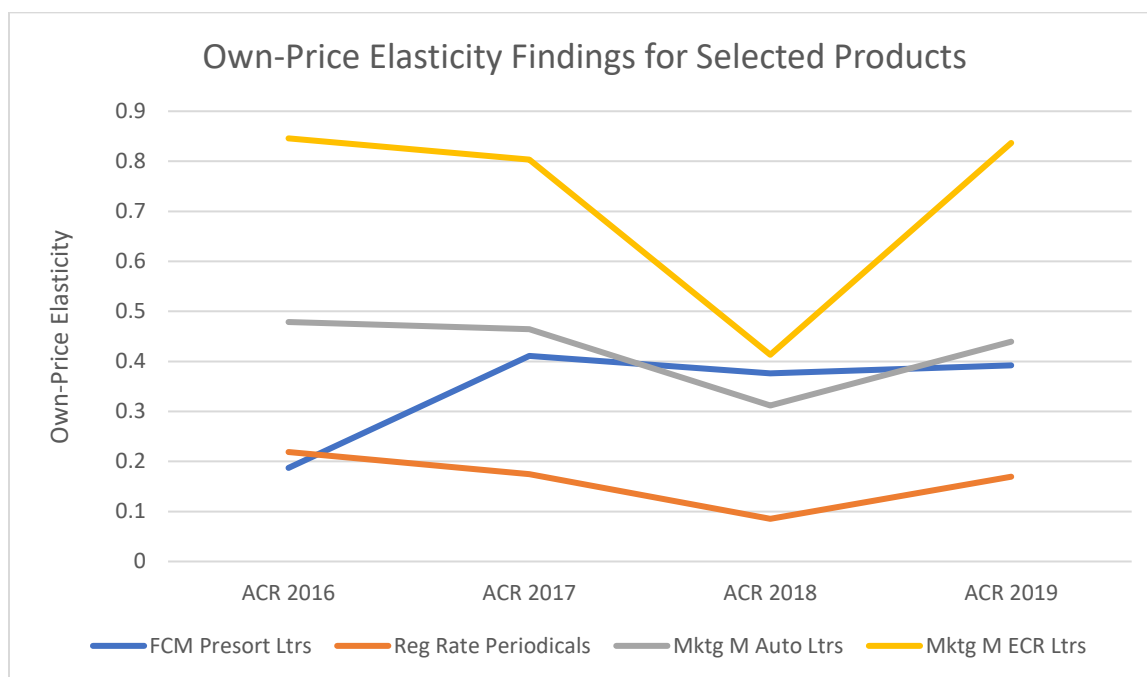
The American Mail Alliance (AMA) hereby petitions the Commission for (i) initiation of a public inquiry to arrive at a satisfactory means of estimating the effect of the price changes contemplated by the proposals in Order No. 5337, and (ii) delay of any decision, total or partial, in this docket until such satisfactory estimation procedure has been arrived at.

AMA represents a broad cross-section of the mailing industry. Its members' concern, reflected in this Petition, is that the drastic price increases contemplated in Order 5337 will have serious consequences for mail volume and, accordingly, the financial health of both the mailing industry and the Postal Service itself. Currently used methods of estimating the effects of price changes on volume are inadequate to quantify, even roughly, what those consequences might be. The Commission should not make the leap in the dark implied by any decision to adopt the proposed pricing rules without a reliable insight into how they would affect mail volume.

For this there are multiple reasons, detailed in what follows.

I. CURRENT POSTAL SERVICE VOLUME ESTIMATION MODELS ARE CONSTANTLY CHANGING, PRODUCE WIDELY VARYING RESULTS, AND CANNOT ACCOMMODATE PRICE CHANGES OF THE SIZE THE COMMISSION CONTEMPLATES

The Postal Service's concern for good econometric design is in itself no ground for criticism. But constant tinkering, however well-intentioned, entails widely varying estimates of own-price elasticity. Here are the results for several important products<sup>1</sup>:



Own-price elasticity findings which gyrate from year to year may be acceptable for processing *annual* price changes; in that situation, at least, the Commission has before it the Postal Service's latest attempt to refine its forecasting model and can assume that there will probably be a somewhat different one at the end of the one-year rate cycle. But that is not the situation the Commission now faces.

<sup>1</sup> Elasticities, actually negative quantities, are shown as positive in order to construct a readable chart.

The Postal Service does make a significant change in the model from year to year. In *Changes to Econometric Demand Equations for Market Dominant Products Since January 2019*, filed with the Commission on January 21, 2020, the Service lists nine changes in First Class, 22 in Marketing Mail, and five in Periodicals. We do not argue that any one of these changes degrades the models; they may well all be improvements from the viewpoint of the econometrician. Our point is that attempting to use constantly modified models over a multi-year period can lead to serious error.

The concept of the multi-year period is highly important.

The proposed density-related supplemental rate authority has no time limit. According to the Commission's Table IV-3<sup>2</sup>, density-related supplemental authority could be as much as 2.69 percent. Of the seven years covered by the Table, four show supplemental authority greater than one percent. The retirement-related pricing authority is estimated to add from 0.861 to 1.111 percent more (Table IV-6). Performance-based supplemental rate authority is set at one percent and apparently will last for at least five years.<sup>3</sup>

All this means that there could be price increases of as much as 4.8 percent *above inflation* for several years. From this fact flow two important conclusions:

- A system of price elasticity estimation which produces results varying widely from year to year cannot be relied on to predict the volume effects of increases over several years; and
- A system which has arguably served the needs of the mailing community when price increases were limited to the change in the CPI-U cannot be relied on to predict the volume effects of far larger increases.

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<sup>2</sup> Order 5337, p. 80.

<sup>3</sup> See Order 5337, pp. 121-125.

We make the latter assertion because it is well understood that a model which serves for relatively small price changes cannot do so when the increases are substantially larger. If the Commission's proposals were to be implemented, the increases would indeed be substantially larger. The existing mechanism for estimating post-price-change volumes will not serve its intended purpose.

## II. PENDING AVAILABILITY OF A RELIABLE METHOD OF PREDICTING VOLUMES, THE COMMISSION SHOULD NOT ISSUE A FINAL DECISION IN THE TEN-YEAR REVIEW

What we have shown above means, in AMA's view, that the Commission cannot responsibly commit itself and the mailing community to several years of above-inflation price increases without knowing what their effect would be on mail volume. The Commission itself has emphasized the importance of volume erosion; that is half the justification for the density-related supplemental pricing authority proposed in Order 5337. To allow those abnormal price increases without knowing how badly they will depress mail volume would undermine the Commission's financial rescue project.

Consequently, the Commission should delay decision on the Order 5337 proposals until it has conducted a public inquiry proceeding designed to elicit a method of estimating the price-on-volume effects of those proposals which will (i) reflect the abnormally large size of the potential increases, (ii) be consistent methodologically, as far as possible, from year to year over a reasonably long span, and (iii) generate results which do not gyrate wildly from year to year.

AMA therefore petitions the Commission to issue an order –

(A) Suspending further proceedings in Docket RM2017-3 pending completion of the public inquiry requested under (B); and

(B) Initiating a public inquiry docket aimed at securing the necessary volume estimation method as described in the body of this Petition.

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Respectfully submitted,

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